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DAILY DIGEST

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CENTRAL INTELLIGENCE AGENCY

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TOP SECRET

TOP SECRET

SECTION 1 (SOVIET)

1. MASTERN EUROPE. CZECHOSLOVAKIA. Upward revision of norms planned to increase production: "To raise the productivity of labor and to lower production costs" is the aim of the norm revision for 1952, according to a statement by Czechoslovak Minister of Heavy Industry Klement. He described the current wage system as disjointed, and stated that, if the average wage rates are being exceeded by 80 to 100 percent in virtually all heavy industrial enterprises, the present norms must be "soft." Wages, he added, have been allowed to rise, but productivity has lagged far behind. Klement emphasized that the upward revision of the norms must be accomplished by the adoption of Soviet Stakhanovite techniques, the operation of more than one machine at a time by the worker, and by the introduction of two or three work shifts where necessary. (FBID, 13 Aug 51).

Comment: The upward revision of norms will substantially reduce the already low standard of living of the Czechoslovak worker and add to his discontent with decreased rations and increased regimentation.

2. POLAND. Possibility of further steps against US following USIS closing: US Embassy Warsaw believes that further Polish Government action against the US is possible as a follow-up to the closing of the USIS office. The Embassy feels that, while the Polish Government's note protesting the closing of the Polish Research and Information Service office in New York may have been designed primarily for propaganda use, it may also be used as the basis for (1) the expulsion of the Embassy information officer, or (2) the prosecution of USIS Polish personnel. The Embassy points out that the Polish note specifically states that "only diplomatic immunity has protected the responsible ones from the merited legal consequences" of USIS' allegedly criminal activities. (S Warsaw 151, 15 Aug 51).

Comment: US Embassy Warsaw originally believed that there would be no specific steps taken against US personnel working for the USIS office. Except for the language of the latest Polish note there are no indications of possible future steps against US personnel of USIS.

3. YUGOSLAVIA. US Military Commander Trieste evaluates Yugoslav stability: The US Military Commander in Trieste believes that the Yugoslav Army will remain loyal while it is organized and carefully watched. If the Yugoslav forces were confronted by overwhelming military power, they would retreat to already prepared defenses in the mountains, since the Yugoslavs are probably counting on guerrilla tactics rather than front line action in the event of an invasion. The source considers it likely that popular resentment toward the Tito regime, Cominformist and royalist sympathies, and historic Serb-Croat differences would weaken the Tito regime in the event that it became involved in hostilities. (CGTRUST TRIESTE 8, 15 Aug. 51)

TOP SECRET

TOP SECRET

Comment: The Yugoslav Government has recently told US officials that, as its military capabilities were increased by the arrival of modern equipment, it would become less necessary to retreat into the mountains if attacked. Although the foregoing divisive factors are present in Yugoslavia, a resurgence of national patriotism following a Cominform attack on the country would tend to counteract them.

4. INTERNATIONAL COMMUNISM: World Federation of Trade Unions will meet in Berlin. The Executive Committee of the World Federation of Trade Unions decided at their July meeting in Vienna to hold the next general WFTU conference in Berlin in mid-November, [REDACTED]

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Comment: East Berlin is as far west as international Communist meetings can still be held without running into visa difficulties, and it is easily accessible from Soviet orbit ports. The WFTU conference would add to other evidence, such as major youth meetings and the World Peace Council meeting held there this year, that Berlin is being built up into a center of international Communist activities.

TOP SECRET

TOP SECRET

SECTION 2 (EASTERN)

1. GREECE. Papagos' initial speech rouses little enthusiasm: Marshal Papagos' first electoral speech, delivered on 11 August, influenced few who were not already persuaded. Dispassionate in both content and delivery, the speech disappointed those who hoped for a fighting statement or an emotionally inspiring declaration. Commenting that Papagos could have come closer to the public mood with a "throw the rascals out" speech, the Embassy reports that the Marshal is apparently sincere and firm in his determination to avoid mud-slinging and recrimination. (C Athens 787, 14 Aug 51).

Comment: Papagos' opponents have not been inhibited by the Marshal's restraint. Neither the King, who is currently the C-in-C of the Armed Forces, nor the Liberal Prime Minister has hesitated to take advantage of his position to weaken Papagos. Despite the Marshal's determination to conduct a fair campaign, he may eventually be persuaded to adopt the tactics of his opponents.

2. INDIA. Food ration raised: The food ration, which was cut to 9 ounces during India's critical period of shortages, has been restored to its original amount of 12 ounces per day in over half the Indian states, according to a Food Ministry statement on 8 August. The other states have been advised to restore the 12 ounce ration as soon as stocks become available. (R FBID Far East, 10 Aug 51).

Comment: The moderate success of India's long struggle to obtain food grains seems to have brought at least temporary relief.

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3. BURMA. Chinese Nationalist forces in Burma disintegrating: [REDACTED] General Li Mi's Chinese Nationalist forces, which were recently defeated by the Chinese Communists in Yunnan and driven back into Burma, are now looting Burmese villages. [REDACTED] many Nationalists have deserted and that the morale of those remaining is very low. ([REDACTED]

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Comment: Other reports have been received that Li Mi's army is disintegrating. Their looting activities, however, may cause Burma again to raise on an international level the question of the Nationalists' violation of Burmese territory.

The Burmese have just dispatched 600 additional troops to Kengtung State to control the Nationalists. Two battalions were committed to the

TOP SECRET

TOP SECRET

same area several weeks ago. The diversion of these forces will further weaken the government's efforts to contain the Burmese Communist insurrection.

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4. Sino-Burmese Communist activity reported: [redacted]
reports that, according to a Burmese who attended a conference at Paoshan (Yunnan) in July:

- (a) Naw Seng, the Burmese army renegade, is in Kunming and his followers are being trained near Paoshan;
- (b) there are an estimated 2,500 Chinese Communist troops at Paoshan;
- (c) Than Tun, the Burmese Communist leader, is highly regarded by the Chinese and is in radio contact with Paoshan and Kunming;
- (d) at the Paoshan conference it was decided to station Chinese Communist troops along the Sino-Burma border.

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[redacted]

Comment: Many sources are reporting increasing coordination of Chinese and Burmese Communist activities along the Sino-Burma border.

5. INDONESIA. Indonesian Government undertakes forceful anti-Communist action: Military police in the past few days have arrested several hundred people including some high officials of the Ministry of Labor, Communist Party chieftains and leaders of several Communist unions. The police also searched the offices of the Communist Party and the Communist labor unions and the homes of several Parliament members. (R FBID Ticker Djakarta, 16 Aug 51).

Comment: Serious incidents of apparently coordinated violence throughout Indonesia from 4 to 6 August -- including an attack on the Djakarta port area by 200 to 300 men wearing Communist insignia -- have alarmed the Indonesian Government sufficiently to force it to take strong action for the first time against the Communists.

These developments, in addition to reported Communist plans for nationwide demonstrations on 17 August, led the cabinet to order drastic action "within the bounds of existing laws and regulations" against "anti-national movements."

TOP SECRET

TOP SECRET

"Conservative" Indonesians have stated, however, that unless sufficiently serious incidents continue, it is doubtful that the government will persist in its forceful policy and that the Communists will be permitted to develop their strength unopposed.

6. CHINA. Peiping denounces Japanese peace treaty conference: Chinese Communist Premier Chou En-lai, in an official statement of 15 August, made the following points regarding the Japanese peace treaty:

- (a) Peiping regards the US-UK draft treaty as "basically unacceptable;"
- (b) the treaty is "in reality...for preparing a new war," is "hostile" to Communist China and a "menace" to other Asian states;
- (c) Peiping continues to endorse completely the USSR's proposals regarding the peace treaty;
- (d) Peiping, unless invited to participate in the preparation and signing of a Japanese peace treaty, will consider the treaty "illegal" and "null and void;" and
- (e) Peiping believes that a peace conference should be attended by all states that engaged in armed conflict with Japan during World War II, and Peiping is prepared to "exchange views" on a "joint (Japanese) peace treaty" with all such states.

(R FBID Flimsy, Peiping, 15 Aug 51).

Comment: This statement was issued after it was public knowledge that the USSR had accepted its invitation to attend the San Francisco conference. Chou's statement conceivably could become a source of embarrassment to both Peiping and the USSR, especially if the USSR should choose to sign the draft treaty. However, Chou's last point suggests that Moscow and Peiping may be contemplating the calling of a separate peace treaty conference.

7. Disaffection reportedly widespread among Chinese Communist military: A Chinese source reports widespread dissatisfaction among the Chinese Communist military with the Peiping regime's Korean venture and with C-in-C Chu Teh's "lowered prestige." Another source corroborates the latter point and adds that an estimated 70 per cent of the Communist

TOP SECRET

TOP SECRET

military have "nationalist" sentiments as opposed to the 30 per cent who are "internationalists." (C Hong Kong 661, 15 Aug 51).

Comment: It is unclear whether the sources are speaking of the Peiping regime's top military leaders, or of the officer class as a whole, or of the armed forces as a whole. Frequent reports of disaffection among the leaders have never been confirmed. While there is fragmentary evidence that Chu Teh has lost some part of his former power, his prestige as one of the top four or five in the Peiping hierarchy remains unimpaired.

Although it is doubtless true that the military has not been thoroughly indoctrinated with the tenets of "proletarian internationalism," the political commissioner apparatus is an effective instrument of Stalinist control and there is no evidence of the functioning of a significant anti-Stalinist group at any level in the armed forces.

8. Chinese Nationalist agents receive favorable treatment by British: The US Consulate General in Hong Kong was reliably informed that a branch office of the Chinese Nationalist guerrilla liaison office was recently raided, while the main office remained untouched and is still functioning. Several persons arrested in the raid were allowed to depart to Formosa after necessary arrangements were made with the British Consul in Formosa and fines paid.

The American Consul General notes that this is the first evidence that the Chinese Nationalist Government is in a position to negotiate with the British in these matters, and that all Chinese Nationalists agents in Hong Kong will have considerably improved freedom of action if they can depend on being returned to Formosa when arrested.

Independent anti-Chinese Communists, who are receiving increased attention from the Hong Kong Government, are in a much less favorable position, since they can expect only jail or deportation to the mainland if apprehended. (S Hong Kong 595, 13 Aug 51).

Comment: This report, if true, represents a change in the British position and indicates a softening of their attitude toward the Chinese Nationalists. It assures the Nationalists of more control over the guerrillas operating in China, and consequently weakens the "Third Force" Movement.

9. Chinese Nationalists accept proposal for supervision of US aid: The Chinese Nationalists, in response to the US memoranda requesting

TOP SECRET

TOP SECRET

effective supervision and control of US aid, have advised the US Charge in Taipei that they have appointed a special committee headed by the Premier to deal with reduction of the budget deficit and control of expenditures. The Chinese Government states it will be grateful to have the advice of US representatives on Formosa. (S Taipei 212, 13 Aug 51).

Comment: A report of 10 August stated that the cabinet was divided on whether or not to accept the US memoranda. Furthermore, at that time Premier Ch'en Cheng admitted privately that the Nationalists had no plan to propose, but desired practical suggestions from the US.

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10. KOREA. Rhee seeks amendment to ROK constitution: President Rhee, in a "Liberation Day" speech, discussed the subject of two constitutional amendments that he urges the National Assembly to adopt. These amendments provide for the election of the president by direct popular vote and the setting up of a bi-cameral legislature. Rhee further declared that he, personally, had no interest in these amendments and that his sole concern "is to secure democracy for the sake of the future of the Republic." (R FBID [REDACTED] 15 Aug 51).

Comment: These constitutional amendments were suggested prior to the June elections in 1950. While President Rhee has always tacitly favored them, this is the first known occasion on which he has made a public statement urging their adoption. Although his motivations in bringing the matter up now are still obscure, it is likely that this move is a further step in the President's campaign to assure his ascendancy over the National Assembly.

11. Communist Air Force night interceptor uses "rocket": Communist aircraft over North Korea made four attacks on UN aircraft during the nights of 11 and 13 August--two by jet-type and two by high-performance conventional-type aircraft. Of particular interest is the 12 August determined night attack on a US reconnaissance bomber north of Pyongyang. The enemy aircraft, identified as a twin-jet "believed to be a Type-8," fired a rocket which missed the US plane and burned out 1,000 yards away. Neither aircraft was damaged in this encounter. (S AX 2686 FEAf, 14 Aug 51; S AX 2685 FEAf, 14 Aug 51; S AX 2660 FEAf, 13 Aug 51; S AX 2700 FEAf, 14 Aug 51).

Comment: While certain types of German rockets are known to have a burning period that would extend up to 750 yards, an additional possibility exists that the observed missile might have been a large caliber air-borne artillery tracer shell. This is the first reported instance of a Communist airborne attack employing anything larger than machine guns and small caliber cannons.

TOP SECRET

TOP SECRET

SECTION 3 (WESTERN)

1. GERMANY. West Germans are indignant over Allied economic moves: The West Germans, sensing the approach of virtual independence in their internal affairs, react sharply these days to any restraints or direction from the Western Occupation Powers. Indignation has been intense over the decisions of the Ruhr Authority on German coal export quotas and the insistence of the Allies upon the full payment of German occupation costs. The Germans appreciate that the Ruhr Authority will soon be superseded by the Schuman Plan; meanwhile, they resent its decisions having the effect of curbing West Germany's robust industry. Finance Minister Schaeffer has demanded a German-Allied treaty on defense costs, declaring that the occupation costs must not be set unilaterally by the Allies. Newspapers report that the coalition parties and the opposition Social Democrats are united in a common front against the Allies on both issues. The press speaks of "high political tension" in Bonn, and foresees not only a crisis in German-Allied relations, but also in German internal politics and economics.
2. FRANCE. Assembly Committee resolution on Japanese Peace Treaty worries Foreign Minister: A Foreign Office official has revealed that Foreign Minister Schuman is somewhat upset over the Assembly Foreign Affairs Committee's adoption of a Gaullist-sponsored resolution decrying the government's stand on the Japanese Peace Treaty. The resolution was especially critical of France's omission from the group of "inviting powers" for negotiation of the Treaty, and of the failure to invite the Indochinese states. Schuman plans to present the Foreign Office position to this committee in an off-the-record talk next week.

Government concern over Gaullist efforts to make political capital of the Japanese Peace Treaty has induced the Foreign Office again to request that the Associated States of Indochina be invited to the peace treaty conference. (C Paris 998, 13 Aug 51)

Comment: Gaullist efforts to embarrass the government in its foreign policy are aided by the widespread popular suspicion that the US tends to ignore French wishes. In the present instance, there is considerable sentiment within the Cabinet itself that France should have been given a major role in the handling of the Japanese Treaty.

3. French backing hinted for Chinese Communist UN bid: French UN Deputy Permanent Representative Francis Lacoste has expressed the "personal view" that France would be strongly tempted to vote for admission of the Chinese Communists to the UN if they held out the prospect of a "Kaesong in Indochina". He inquired whether the US would modify its position on

TOP SECRET

TOP SECRET

admitting the Chinese in the event of a Korean armistice. (S NY 233, 15 Aug 51)

Comment: While the French have been extremely desirous of obtaining some form of non-intervention guarantee for Indochina, this is the first intimation that France would consider bargaining with Communist China on its admission to the UN. This "personal view" may be a feeler, but there is little likelihood that France would act against US wishes on this point.

4. AUSTRIA. Exclusion from Austria of WFTU Secretary-General considered: Information at the Austrian capital indicates that Louis Saillant, WFTU Secretary General now in France, may return by air to his Vienna post about 20 August. The US Legation opposes harassment as such, but suggests that effective action preventing Saillant's return would seriously embarrass WFTU activities in Vienna. Austrian authorities have previously asserted that the WFTU is considered an illegal organization and that residence permits for its employees will be denied. However, expulsion of WFTU personnel has been believed impossible so long as the Soviet occupation authorities provide protection. (S Vienna 597, 14 Aug 51)

Comment: If M. Saillant approaches Vienna by air and avoids rail or road transit of the Western zones, Allied occupation authorities cannot prevent his return. The Austrian Government is not likely to undertake additional provocative measures on its own initiative without strong Allied support. This means that any action would have to be taken by the French, who have not, however, indicated an intention of preventing his return to Austria.

5. NETHERLANDS. Revision of Dutch-Indonesian agreements forecast: A special Indonesian Ambassador is on his way to the Netherlands for talks with the Dutch Government on replacement of the Union Statute by an ordinary international treaty. Other agreements on Dutch-Indonesian cooperation, made at the December 1949 round table conference, will also have to be studied, according to the Ambassador. (R FBIS-Hilversum, 14 Aug 51)

Comment: Defense and internal economic problems have lately overshadowed consideration of the Dutch-Indonesian relationship by the Dutch Government and press. The Union Statute, which provides that the Netherlands sovereign be head of the Dutch-Indonesian Union, is essentially a matter of prestige for the Dutch and has never been implemented. Abrogation of the Statute, either because the Dutch accede to Indonesian threats of unilateral action or because the Dutch seek to prevent additional loss of their economic interests under other portions of the 1949 agreements, would probably further weaken the Dutch Government.

TOP SECRET

TOP SECRET

6. ITALY. Italian Communists speed sabotage program: Two members of the Communist Party's central committee recently briefed the directing group of the Milan federation on the party's program for improving its sabotage potential. This potential in the metallurgical-mechanical industry was described as "already well organized" and is expected to be utilized "toward the end of the year". It was stated that the Italian Communists had trained 27 expert saboteurs and hoped to have 50 by the end of the year in line with the organization of sabotage squads on an international level and their operations "for the past eight months" in Western Europe, Yugoslavia, Greece, Africa, Asia and America. They also had succeeded, it was said, in planting at least one agent "in every military headquarters".

It was emphasized that Communist party members possessing "war material" must hide or destroy it, not only for security reasons, but also because at the suitable moment, "the most modern equipment" will be available. With reference to the Milan municipal election, it was asserted that the extreme left was the real victor because the election results showed complete solidarity between the Communists and the pro-Communist Socialists. [redacted]

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Comment: There have been no other reports that internationally organized sabotage squads have been operating in any of the areas mentioned except Yugoslavia. It is known that considerable numbers of Soviet satellite agents have been penetrating Yugoslavia in a continuous stream, but there have been no reports of sabotage. Although the Italian military authorities maintain they have weeded Communists out of top-level positions, it is probable that the Communists have succeeded in maintaining agents in posts where they have access to important information.

7. UNITED KINGDOM. British foresee favorable grain contract with USSR: The British delegation which is currently negotiating for a coarse grain contract with Soviet representatives feels confident that the USSR will agree to supply by mid-1952 nearly all of the 1,000,000 tons requested by the UK. (750,000 tons were delivered during the past year.) Though the discussions are being carried on by commodity level representatives, it is believed that the Soviet delegation has the requisite authority to sign a binding agreement at London. The British hope that a bilateral agreement will be practically completed when the Economic Commission for Europe (ECE) meeting on East-West trade convenes at Geneva on 20 August. (S London 853, 13 Aug 51; NY Times, 15 Aug 51)

Comment: The UK remains convinced that substantial quantities of timber and coarse grain must be obtained from Eastern European countries rather than from the dollar area because of Britain's critical dollar shortage. If the current negotiations are completed before the ECE East-West trade talks begin, the UK's opposition to a total economic blockade of the Soviet

TOP SECRET

TOP SECRET

Union will then be quite clear. (A timber contract was signed last month between the UK and the USSR.) The speed with which the grain negotiations are commencing contrasts sharply with the Soviet delaying tactics in former years and suggests that the USSR also feels it advantageous to secure the commercial contract. If an agreement is reached before the Geneva meeting, the USSR can use it for propaganda for closer economic relations with Western European countries.

8. SWEDEN. Trygve Lie reports neutrality firmly entrenched: The Secretary-General of the UN has informed the US Ambassador to Norway that his conversations with the Swedish Prime Minister indicate that neutrality sentiment is currently stronger in Sweden than ever before. (S Stockholm 171, 14 Aug 51)

Comment: This assertion of the continuing firmness of Sweden's "no alliance" foreign policy is supported by other evidence. Stronger confidence in this policy is probably due in part to Sweden's success in obtaining vitally-needed radar equipment from the US (see OCI Daily Digest, 24 May 51), which has largely removed such doubts as the Swedish Government may have inwardly harbored that its non-adherence to NATO was isolating Sweden from the West and adversely affecting its defense capabilities. At the same time, Sweden has been evincing an increased willingness to cooperate with the West in such matters as the limitation of strategic exports to the Soviet orbit and the informal communication of military information to NATO nations, provided that Sweden's "freedom of action" is not impaired by any legal treaty obligations.

9. ARGENTINA. Meat exports to Britain temporarily suspended: On 15 August the government ordered that meat shipments to Britain be suspended for 10 days, or until the critical supply situation in Argentina is relieved. Shortly before the suspension order, it warned cattle producers that if they did not ship their cattle to market, "they would regret it". (U La Prensa (NY), 16 Aug 51)

Comment: A moderate meat shortage has been created in Buenos Aires by the cattlemen's refusal to accept prices offered by the government's packing plants. The order suspending exports is probably designed to assure a plentiful supply of meat for the thousands of workers which the government will bring into Buenos Aires to attend the 22 August Peronista political rally. At this meeting, sponsored by the government-dominated Confederation of Labor Unions, Peron is expected to accept the workers' "demand" for his re-election.

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39

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TOP SECRET

SECRET

SECTION 1 (SOVIET)

1. USSR. USSR not expected to demand reparations at Japanese peace conference: The Department of State does not share Philippine concern that Soviet maneuvers at San Francisco will revolve around the reparations issue. The Department points out that Soviet proposals, which Gromyko has indicated will be renewed at San Francisco, so far have been wholly geared to winning favor in Japan. In particular there have been no suggestions in prior Soviet notes that Japan should pay reparations. The Department further observes that since India also opposes reparations, efforts of Indonesia and Burma to form a common front with India in this respect have not succeeded. (C, S/S State to Manila 560, 15 Aug 51).

Comment: The USSR may be hesitant to raise the reparations question because Soviet postwar removals from Manchuria have presumably created a delicate issue between the USSR and Communist China.

SECTION 2 (EASTERN)

2. INDOCHINA. US Minister in Saigon urges presence of Indochinese states at San Francisco conference: In view of the Soviet decision to take part in the Japanese peace treaty conference, Minister Heath believes that the issue of the Associated States' participation has been intensified, and that failure to invite them is "less than ever defensible." Heath believes that in addition to wedge-driving on larger issues, the Russians may defend the legitimacy of the Ho Chi Minh government, recall Vichy's and Bao Dai's wartime collaboration with the Japanese, and challenge the Western nations to submit the Vietnam problem to elections or international investigation. Moreover, the Russians may bid for French support of their overall position at the conference, by dangling before the French the prospects of a guarantee for the Tonkin frontier. Heath believes that under these circumstances to withhold an invitation to the Associated States would take on the character of appeasement, and that by a forthright defense of our own position we may even enhance the solidarity of the Western and Western-oriented Asian nations. (S, S/S Saigon 383, 15 Aug 51).

SECTION 3 (WESTERN)

3. PANAMA. Newly appointed US Ambassador in Panama suggests further delay on shipping decree: On 14 August, Ambassador Wiley informed Panama's Foreign Minister that, if the Panama Administration should want legislative authority in order to issue a strong decree banning ships from calling at Communist China,

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postponement of action on the decree until the National Assembly convenes on 1 October would not be an excessive delay. The Ambassador believes that the decree as now drafted might actually serve as a blueprint for the evasion of controls and might offer new life to unethical and illicit trade. In answer to the Foreign Minister's expression of concern over the possibility that a postponement of promulgation would cause publicity adverse to Panama in the US press, the Ambassador replied that the US press would closely analyse the text of any published decree and that to promulgate an inadequate decree also might have unfavorable repercussions. (S, S/S Panama 137, 14 Aug 51).

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